



County of Los Angeles CHIEF EXECUTIVE OFFICE

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September 18, 2008

To: Supervisor Yvonne B. Burke, Chair
Supervisor Gloria Molina
Supervisor Zev Yaroslavsky
Supervisor Don Knabe
Supervisor Michael D. Antonovich

From: William T Fujioka
Chief Executive Officer

SACRAMENTO UPDATE

State Budget Update

After announcing his plan to veto the Legislature's approved budget plan, Governor Schwarzenegger has been meeting with legislative leaders from both parties to discuss the State Budget which is now 80 days overdue. The Governor continues to demand stronger constraints on the rainy day fund to ensure revenues are set aside only to be used in the event of a fiscal emergency, and for the Legislature to reconsider the 10 percent increase in income tax withholding because it only makes the State's problem worse by taxing the people of California and deferring the budget deficit until next year.

Chief Advocate Dan Wall advises that just after 4:00 p.m. today, two of the four Legislative leaders, Senate President pro Tem Don Perata and Senate Republican Leader Dave Cogdill came out of the Governor's office and announced a deal on the State Budget. Assembly Speaker Karen Bass left the Governor's office a few minutes earlier, and indicated that budget talks were still proceeding. Assembly Republican Leader Mike Villines joined Perata and Cogdill shortly thereafter and confirmed that he thought there was a deal. When pressed by the media about the Speaker's comment, he further indicated that he thought there was a deal. When asked, the Legislative leaders indicated that they and the Governor concluded that a veto of the budget package was not in the best interest of all Californians who have not been receiving

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payments from the State, and that a veto would move back the progress toward a budget resolution.

The contents of the new agreement were somewhat sketchy, but it apparently includes exchanging an increase in the Bank and Corporations Tax penalties due to underreporting for the 10 percent Personal Income Tax withholding and the Personal Income Tax amnesty portions of the budget passed in the early morning hours of September 16, 2008. It was represented that the revenue generated would be approximately the same. The leaders also agreed to lower the amount of the State's reserve fund from \$1.2 billion to \$800 million. In addition, the last remaining provision of the Governor's requested strengthening of the rainy-day fund, by limiting the ability to withdraw funds, was accepted by the three Leaders.

It is unclear from the statements made by any of the Leaders whether there was an agreement with the Governor on what or how deeply he would make further cuts with his line-item veto authority, or whether the Governor would veto any of the spending bills.

Both Houses are scheduled to convene tomorrow to address the State Budget.

Impact on the County

Based on our review of the Legislature's approved budget package, **we estimate the impact on the County will increase from a projected loss of \$58.7 million from actions included in AB 1781, the Conference Committee Budget, to an estimated loss of \$94.7 million.** The difference is primarily attributable to the loss of:

- \$13.4 million from additional reductions to Medi-Cal administration funding;
- \$ 6.9 million from the reduction of Food Stamp administration funding;
- \$ 6.3 million from the elimination of the State's contribution for ancillary mental health services for clients placed in Institutes for Mental Disease;
- \$ 6.0 million from the delayed restoration of the Medi-Cal provider rate cut to March 1, 2009; and
- \$ 5.1 million from the reduction of In-Home Supportive Services administration funding.

The additional County losses are partially offset by the restoration of \$1.5 million for the Juvenile Justice Crime Prevention Act and \$100,000 for the Citizen's Option for Public Safety Program. The overall impact on the County by program is reflected in Attachment I.

County Interest Items Included in Budget and Trailer Bills

Attachment II contains a list of the Budget Trailer Bills and other urgency legislation passed by the Legislature on September 16, 2008. In addition, based on our review of these bills, we have identified the following issues of County interest.

General Government

Redevelopment Funds Shift. The budget plan proposes a one-time \$350 million in property tax revenues shifted from redevelopment agencies to the Educational Revenue Augmentation Fund. The trailer bill language requires that each redevelopment agency shifts a proportional share of the \$350 million from its net property tax increment. Agencies will be allowed to borrow from its Low/Moderate Income Housing Funds, but loans will have to be repaid within 10 years. This office will work with the Community Development Commission and other affected departments to determine the overall impact to the County.

Delay of Deferred Mandate Payments. The budget plan retains the Conference Committee Budget action to approve the Governor's proposal to delay the third annual installment of deferred claims for mandated costs incurred by counties prior to FY 2003-04. These mandate payments must be fully repaid by FY 2020-21. This action will defer the payment of \$75 million Statewide of which the County will not receive an estimated \$14 million in FY 2008-09.

California State Library. The budget plan includes a 5 percent reduction to the Public Library Foundation and the Transaction-Based Reimbursement Program which would result in an estimated loss of \$80,000 to the County.

February 2008 Presidential Primary General Election. The budget plan adopts the Conference Committee Budget proposal to include reimbursement for the February 2008 Presidential Primary General Election. It is anticipated that the County will receive an estimated \$22.5 million to cover the costs for conducting the election.

Health

Medi-Cal Provider Rates. The budget plan retains the 10 percent Medi-Cal provider rate reductions adopted as part of the Special Session in February. The rate reduction will remain in effect until March 1, 2009 for most providers, and after that date, the rate cut for Fee-For-Service providers will be restored from a 10 percent cut to a 1 percent cut. A lawsuit to reject the proposed rate cuts has been filed and a case is currently being litigated in the Courts. The estimated impact on the County is a loss of \$8.7 million in FY 2008-09.

Federal Safety Net Care Pool Payments/South L.A. Preservation Fund. The budget plan includes the Conference Committee Budget rejection of the Governor's proposal to shift \$54.2 million of Federal Safety Net Care Pool and South L.A. Preservation Fund payments from designated public hospitals to other health programs.

Section 1931(b) Medi-Cal. The budget plan includes the Conference Committee Budget rejection of the Governor's proposal to rollback the income eligibility level from 100 percent of the Federal Poverty Level (FPL) to 68 percent of the FPL for applicant families who currently qualify for zero share of cost Medi-Cal benefits and to reinstate the 100 hour rule for these families.

Medi-Cal Eligibility for Legal Immigrants. The budget plan includes the Conference Committee Budget rejection of the Governor's proposal to eliminate full-scope benefits for newly qualified immigrants who have been in the United States for less than 5 years and immigrants who permanently reside under the color of law (PRUCOLs).

California Healthcare for Indigents Program (CHIP). The budget plan retains the Budget Conference Committee action to approve the Governor's proposal to reduce funding for the CHIP Program in FY 2008-09. The Department of Health Services estimates an impact of up to a \$5.3 million from this action.

Public Health

HIV/AIDS Treatment and Prevention. The budget plan retains the Conference Committee Budget proposal to reduce local assistance funding for HIV/AIDS care, treatment and prevention, which will result in a loss of \$800,000 for County HIV/AIDS programs.

Family Health Programs. The budget plan retains the Conference Committee Budget proposal to reduce local assistance funding by \$5.4 million for case management services for at-risk teens, domestic violence prevention, and education activities, which will result in an estimated loss of \$202,000 to the County for Family Health Programs.

Alcohol and Other Drug Programs. The budget plan includes the Conference Committee Budget rejection of the proposal to reduce funding for Alcohol and Other Drug Programs.

Proposition 36 Program/Offender Treatment Program. The budget plan includes the Conference Committee Budget rejection of the Governor's proposal to reduce funding by \$10 million for Proposition 36, the Substance Abuse and Crime Prevention Act of 2000 and to reduce the Substance Abuse Offender Treatment Program by \$2 million.

Other State-funded Programs. The budget plan includes the Conference Committee Budget rejection of the proposals to reduce funding for Drug Courts and the Non-Drug Court Perinatal Program.

California Children's Services (CCS). The budget plan includes a State funding reduction of \$3.85 million for the CCS Program, which was partially offset by the use of \$2.42 million in Federal Title-V funding, for a net reduction of \$1.43 million in State funding for the CCS Medical Therapy Program. We will work with the Department of Public Health to determine the final impact on the County of this action.

Mental Health

Proposition 63. The budget plan includes trailer bill language to **allow the State Controller to take loans from the Mental Health Services Act (Proposition 63 of 2005) for State cash flow purposes to be repaid from the State General Fund.** The Department of Mental Health indicates that the borrowing from Proposition 63 is alarming even though the loans are to be paid back with interest because based on the State's fiscal outlook, it does not seem that repayment would happen anytime soon.

In addition, the trailer bill language indicates that Sexually Violent Predator Program mandate claims are consistent with the purposes of Proposition 63, which may be interpreted to allow Proposition 63 funds to be used to reimburse counties for court costs associated with existing law, requiring the Department of Corrections and Rehabilitation to conduct a hearing for sexually violent predators within six months of release.

Mental Health Managed Care Program. The budget plan retains the Conference Committee Budget proposal to reduce State funding by \$7.1 million for the Mental Health Managed Care Program. This proposal will result in a County loss of \$1.5 million.

Institutes for Mental Disease. The budget plan includes trailer bill language that eliminates the State General Fund contribution for ancillary mental health services for clients placed in Institutes for Mental Disease (IMDs). These ancillary services are for mental health treatment only and include psychiatrist visits, laboratory fees and medication costs. The State has historically paid 50 percent of the cost for these services. The Department of Mental Health currently has 775 clients in IMDs at an average cost per month of \$1,365 for ancillary services. The Department of Mental Health estimates that the additional cost to the County will be \$6.3 million annually.

Early and Periodic Screening, Diagnosis and Treatment (EPSDT) Program. The budget plan includes trailer bill language to implement an alternative Statewide Performance Improvement Project (PIP) which will replace an existing Federal

performance improvement project and will be completed by September 1, 2011. The Department of Mental Health indicates that the Statewide PIP is an agreed upon compromise that was negotiated in June 2008 as an alternative to the proposed 5 percent cut to the State maximum allowable Medi-Cal billing rate for the EPSDT Program.

Social Services

Continuous Medi-Cal Eligibility for Children. The budget plan includes trailer bill language to reduce Medi-Cal eligibility for children from a continuous 12-month period to a 6-month period which would result in the loss of Medi-Cal benefits for thousands of children in Los Angeles County.

Medi-Cal Administration. The budget plan includes trailer bill language to suspend the fiscal penalty for counties that fail to meet the Medi-Cal performance standards due to insufficient funding.

CalWORKs Reforms. The budget plan retains the Conference Committee Budget rejection of the Governor's CalWORKs reform proposals to: 1) impose a graduated full-family sanction if the adult does not meet work requirements; 2) eliminate safety net benefits for families not meeting the work participation requirements; and 3) impose a 60-month time limit for certain child only cases. These proposals would have resulted in the loss of CalWORKs benefits for approximately 84,000 children and 36,000 families and in increased County costs ranging from \$47 million to \$105 million from the potential shift of these families to the County's General Relief Program.

Child Welfare Administration. The budget plan retains the Conference Committee Budget rejection of the Governor's proposal to reduce funding for Child Welfare Services by \$83.7 million statewide. This proposal would have resulted in an estimated County loss of \$25 million and a reduction in services to over 37,000 children.

Payments to Foster Care Providers. The budget plan retains the Conference Committee Budget rejection of the Governor's proposal to reduce foster care payments 10 percent effective October 1, 2008 for a State savings of \$123.7 million. This proposal would have resulted in an estimated \$14.9 million cost savings to the County.

Adult Protective Services. The budget plan retains the Conference Committee Budget rejection of the Governor's proposal to reduce funding for the Adult Protective Services Program by \$11.4 million statewide. This proposal would have resulted in an estimated County loss of \$2.6 million.

Medi-Cal Administration Funding. The budget plan includes the Conference Committee Budget action to reduce the Medi-Cal cost-of-doing business adjustment by \$64.4 million for an estimated County loss of \$20.0 million. The budget plan also includes an additional reduction of \$42.2 million for caseload growth funding for counties. The estimated loss to the County is \$13.4 million. In total, the budget plan will reduce County funding for Medi-Cal administration by an estimated \$33.4 million.

In-Home Supportive Services (IHSS) Administration Funding. The budget plan reduces IHSS administration funding for counties by \$15 million statewide. The estimated loss to the County is \$5.1 million.

IHSS Eligibility. The budget plan retains the Conference Committee Budget rejection of the Governor's proposal to eliminate domestic and related services for high functioning IHSS recipients. This proposal would have resulted in the loss of services for approximately 35,000 IHSS recipients in the County, and would have resulted in an estimated County savings of \$10.4 million.

IHSS Provider Wages. The budget plan retains the Conference Committee Budget rejection of the Governor's proposal to reduce State participation in IHSS wages to the current minimum wage rate of \$8.00 per hour effective October 1, 2008. This proposal would have resulted in a net County cost increase of \$48.6 million in FY 2008-09 and \$64.8 million annually, if the County decided to maintain the current wage rate of \$9.00 per hour.

Food Stamp Administration Funding. The budget plan contains a proposal to reduce Food Stamp administration funding by 3 percent for a State savings of \$20.9 million. The estimated loss to the County is \$6.9 million.

Cash Assistance Program for Immigrants (CAPI). The budget plan retains the Conference Committee Budget rejection of the Governor's proposal to eliminate the CAPI Program. This proposal would have resulted in the loss of benefits for an estimated 5,600 aged and disable legal immigrants in the County and an estimated net County cost of \$13.7 million to cover former CAPI recipients under the General Relief Program.

Community Treatment Facility Transfers (CTF). The budget plan retains the Conference Committee Budget rejection of the Governor's proposal to eliminate the \$2,500 CTF differential rate. This proposal would have resulted in an estimated County loss of \$1.5 million.

Work Incentive Nutrition (WINS) Program. The budget plan includes trailer bill language that requires the California Department of Social Services (CDSS) to establish the WINS Program to provide \$40 monthly in additional Food Stamp benefits as an

incentive for families working sufficient hours to meet the work participation rate. The program would be effective October 1, 2009.

Pre-assistance Employment Readiness System (PAERS) Program. The budget plan includes trailer bill to require CDSS to form a work group to determine the feasibility of combining WINS with the PAERS Program in which families applying for CalWORKs would receive services for up to 120 days to help them become employed.

Cost-of-Living Adjustments (COLA). The budget plan includes trailer bill language to suspend the 2008 COLAs for CalWORKs, CAPI and Supplemental Security Income/State Supplemental Payments (SSI/SSP) recipients.

CalWORKs Child Care Family Fees. The budget plan includes trailer bill language to prohibit charging a family eligible for CalWORKs cash assistance a fee for child care services.

SSI Advocacy Program. The budget plan includes trailer bill language to extend the SSI Advocacy Program to July 1, 2011. This program, which is currently due to sunset July 1, 2009, provides services to help disabled General Relief applicants and recipients apply for and become eligible for SSI benefits.

IHSS Fraud. The budget plan includes trailer bill language to authorize counties to investigate suspected fraud in connection with IHSS overpayments of \$500 or less, and requires that the State IHSS Case Management Information and Payroll System include features to strengthen fraud prevention and detection and reduce overpayments including; identifying out-of-state providers, recipient hospital stays over four days, excessive hours paid to a IHSS single provider, and providing counties with an automated match of IHSS recipient death reports.

Proposition 10. The budget plan includes trailer bill language to **allow the State Controller to take loans from First 5 Commissions (Proposition 10 of 1998) for State cash flow purposes to be repaid from the State General Fund.**

Funding for Child Care and Development Programs. The budget plan includes trailer bill language to require the California Department of Education (CDE) to promote full utilization of child care and development funds and to match available unused funds with identified service needs. This item addresses contracting issues with CDE that results in State funds not being fully allocated and/or child care providers not earning their contracts which results in the return of unused child care and development funds to the State.

Justice and Public Safety

Juvenile Probation Camp Funding. The budget plan retains the Conference Committee Budget proposal to appropriate \$181.3 million for juvenile probation camps which includes a 10 percent reduction from the FY 2007-08 funding level. The estimated impact to the County is a loss of \$8 million. In addition, the budget plan rejects the Governor's proposal to fund this program with Temporary Assistance for Needy Families funds and instead provides \$152 million in State General Fund for this program which is consistent with the current budget.

Citizens' Option for Public Safety (COPS) and Juvenile Justice Crime Prevention Act (JJCPA). The budget plan appropriates \$214.2 million in funding for these two programs. However, the program funding reflects a 10 percent reduction in comparison to the FY 2007-08 allocation level. The estimated impact to the County is a loss of \$1.0 million for COPS and \$3.3 million for JJCPA in FY 2008-09.

Mentally Ill Offender Crime Reduction Grant Program (MIOCR). The budget plan does not fund MIOCR program in FY 2008-09. Since MIOCR grant funds were awarded on a competitive basis, the impact to the County cannot be determined.

Booking Fees Subvention. The budget plan appropriates \$31.5 million to this program. Under the provisions of existing law, the County will be able to impose booking fees sufficient to cover its proportional share of the reduction of the grant from the \$35 million level plus a cost of living adjustment plus 1 percent per year.

California Multi-jurisdictional Methamphetamine Enforcement Teams. The budget plan provides an additional \$10 million to provide supplemental grants on a competitive basis to fund initiatives to address local methamphetamine abuse problems.

Transportation

Proposition 42. The budget plan includes trailer bill language that proposes to fully fund Proposition 42 by allocating \$1.4 billion in FY 2008-09. As this is an ongoing allocation, the Department of Public Works will continue to receive approximately \$55 million of the \$280 million apportioned to counties. The State Transportation Improvement Program (STIP) will receive \$560 million, and of this amount, approximately \$93 million will be allocated to projects in the Los Angeles region.

Proposition 42 Repayment. The budget plan includes trailer bill language that proposes the repayment of the \$83 million in Proposition 42 funds, which is the minimum amount required under Proposition 1A of 2006. This amount will be deposited in the Traffic Congestion Relief Fund (TCRF). The County has been fully repaid for amounts borrowed in prior fiscal years.

Proposition 1B. The budget plan includes trailer bill language that defines and sets the framework for various Proposition 1B programs including the Public Transportation Modernization, Improvement, and Service Enhancement; State-Local Partnership Program; and the Trade Corridor Improvement Fund by establishing criteria for eligibility and allocation of bond funds. It is anticipated that bond funds will be allocated to local or regional transportation agencies on a competitive basis and in proportion to transportation revenue raised at the local level through voter-approved fees and taxes.

The budget plan also allocates \$250 million under Proposition 1B for the Local Streets and Road Program. Of this amount, \$187 million is directed to cities and \$63 million to counties within the State of California. The County expects to receive approximately \$12 million from these funds. The State still has \$450 million under this program to allocate to counties by formula distribution.

Transportation Funds Loans. The budget plan includes trailer bill language that extends the sunset for short-term cash-flow loans among transportation funds until 2011. The budget plan also authorizes a three-year loan from the Traffic Congestion Relief Fund to the Public Transportation Account not to exceed \$60 million and extends the sunset until 2011 for short-term cash-flow loans from the State General Fund to the State Highway Account, and also places a new ceiling of \$200 million on such loans. These provisions will not impact any direct funding received by the County.

We will continue to keep you advised.

WTF:GK
MR:IGA:lm

Attachments

c: All Department Heads
Legislative Strategist
Local 721
Coalition of County Unions
California Contract Cities Association
Independent Cities Association
League of California Cities
City Managers Associations

**ESTIMATED IMPACT TO LOS ANGELES COUNTY
FROM THE GOVERNOR'S FY 2008-09 PROPOSED BUDGET**

Programs:	January Budget	May Revision	Conference Committee	Final Legislative Budget
<u>Health</u>				
Medi-Cal Provider and Managed Care Rates	(\$12,714,000)	(\$12,714,000)	(\$2,775,000)	(\$8,738,000)
Federal Safety Net Care Pool Payments/So. L.A. Preservation Fund	(24,393,000)	(24,393,000)	0	0
California Healthcare for Indigents Program	0	(5,300,000)	(5,300,000)	(5,300,000)
Section 1931(b) Medi-Cal Eligibility	0	(5,000,000)	0	0
Medi-Cal Eligibility for Legal Immigrants	0	(1,500,000)	0	0
<u>Public Health</u>				
HIV/AIDS Treatment and Prevention	(1,000,000)	(1,000,000)	(800,000)	(800,000)
Family and Health Programs	(202,000)	(202,000)	(202,000)	(202,000)
Alcohol and Other Drug Programs	(6,628,000)	(6,628,000)	0	0
Proposition 36 Program/Offender Treatment Program	(3,049,000)	(3,049,000)	0	0
Other State-Funded Programs	(1,427,000)	(1,427,000)	0	0
Children's Medical Services / California Children's Services	(4,500,000)	(4,500,000)	0	0
Tuberculosis Control Program	(151,000)	(151,000)	0	0
Immunization Program	(827,000)	(827,000)	(81,000)	(81,000)
<u>Mental Health</u>				
State Maximum Allowance Rate Cut (EPSDT & Adult Services)	(23,100,000)	(23,100,000)	0	0
Mental Health Managed Care Program	(7,140,000)	(7,140,000)	(1,500,000)	(1,500,000)
Institutes for Mental Disease	0	0	0	(6,300,000)
<u>Social Services</u>				
Child Welfare Services Administration	(25,600,000)	(25,000,000)	0	0
Foster Care Provider Payments Savings	18,200,000	14,900,000	0	0
Adult Protective Services Administration	(2,600,000)	(2,600,000)	0	0
Medi-Cal Administration	(50,100,000)	(55,300,000)	(20,000,000)	(33,400,000)
In-Home Supportive Services (IHSS) Administration	(8,500,000)	(7,600,000)	0	(5,100,000)
IHSS Program Savings	23,000,000	10,400,000	0	0
Reduced State Participation in IHSS Wages	0	(48,600,000)	0	0
Food Stamps Administration	--	--	0	(6,900,000)
CalWORKs Program Reforms	(113,000,000)	(105,000,000)	0	0
Cash Assistance Program for Immigrants	0	(13,700,000)	0	0
Community Treatment Facilities Differential Rate	0	(1,500,000)	0	0
<u>Justice and Public Safety</u>				
Juvenile Probation Camp Funding	(8,000,000)	(8,000,000)	(8,000,000)	(8,000,000)
Juvenile Justice Crime Prevention Act (JJCPA) Program	(3,300,000)	(3,300,000)	(4,800,000)	(3,300,000)
Citizens Option for Public Safety (COPS) Program	(1,000,000)	(1,000,000)	(1,100,000)	(1,000,000)
<u>General Government</u>				
Delay of Third Installment of the Deferred Mandate Payments	0	(14,000,000)	(14,000,000)	(14,000,000)
February 2008 Presidential Primary Election	(20,000,000)	0	0	0
Public Library Fund	(190,000)	(190,000)	(95,000)	(80,000)
Military and Veteran Affairs Programs	(29,000)	(29,000)	0	0
Subventions for Open Space (Williamson Act)	(4,000)	(4,000)	(4,000)	(4,000)
Total	(\$276,254,000)	(\$357,454,000)	(\$58,657,000)	(\$94,705,000)

Notes:

This table represents the estimated loss/gain of State funds based upon the Governor's Proposed Budget, May Revision, Conference Committee, and Final Legislative Budget proposals. It does not reflect the actual impact on the County or a department which may assume a different level of State funding or be able to offset lost revenue.

2008 Budget Bills Passed by the Legislature

AB 1781	Conference Committee Report
AB 88	Supplemental Budget Bill
AB 10	High Tech Overtime
ABx3 36	Revenue Package #2 (majority vote)
AB 158	Indian Gaming Special Distribution Fund
AB 186	Rural Crime Program Extension
AB 268	Transportation Trailer Bill
AB 519	Education Trailer Bill
AB 1183	Health Trailer Bill
AB 1279	Human Services Trailer Bill
AB 1338	Resources Trailer Bill
AB 1389	General Government Trailer Bill
AB 1452	Revenue Package #1 (requires $\frac{2}{3}$ vote)
AB1526	Proposition 49 (After School Programs) Changes
AB 1654	Lottery: Modernization
AB 1741	Lottery: Securitization
AB 1805	Mental Health Services for Special Education Students (formerly SB 292, Wiggins)
AB 2026	Surplus State Property
AB 2246	Fresno Joint Powers Charter School
AB 2784	Medi-Cal: Hospital Reimbursement
SCA 12	Lottery: Constitutional Change
SCA 13	Budget Reform Constitutional Amendment